

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 PM-04 H-01 INR-07 L-03 NSC-05 PA-01

PRS-01 SP-02 SS-15 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

FEA-01 /077 W

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O 081032Z DEC 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC IMMEDIATE 8166

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E.O. 11652: N/A

TAGS: ECON, EFIN, ID

SUBJECT: GOI'S BALANCE OF PAYMENTS AND EXTRABUDGETARY FINANCING

REF: STATE 297724

1. REFTEL PARA 1 AND 2: THE INCONSISTENCIES BETWEEN IMPORT STATISTICS REPORTED IN BANK INDONESIA'S WEEKLY REPORTS AND ESTIMATES MADE BY GOI FINANCE MINISTER AND KUHN LOEB MOMORANDUM ARE PARTLY A MATTER OF THE BASIS ON WHICH THE STATISTICS ARE RECORDED AND PARTLY THE RESULT OF A CHANGING IMPORT SITUATION. THE IMPORT STATISTICS IN BANK INDONESIA'S WEEKLY REPORT ARE BASED ON L/C APPLICATIONS USING C AND F VALUATION. A COMPARISON OF THESE IMPORT STATISTICS BASED ON L/C APPLICATIONS WITH OTHER MORE COMPLETE IMPROT STATISTICS SUCH AS THOS PUBLISHED IN THE CENTRAL BUREAU OF STATISTICS' MONTHLY STATISTICAL BULLETIN FOR PAST TIME PERIODS WILL ILLUSTRATE THE POINT THAT THE IMPORT STATISTICS BASED ON L/C APPLICATIONS ARE ONLY PARTIAL AND THEREFORE TEND TO UNDERSTATE IMPORTS BY A SIGNIFICANT BUT VARYING AMOUNT, PARTICULARLY AS REPORTED IN THE SHORT RUN. THE SECOND FACTOR ACCOUNTING FOR THE DIFFERENCE IN IMPORT FIGURES IS THE REDUCTION IN IMPORTS FROM PROJECTED LEVELS. BECAUSE OF CHANGES IN IMPORT SITUATION IT IS DIFFICULT TO MAKE FORECAST OF FINAL IMTORT LEVEL FOR EVEN

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THE CURRENT YEAR BUT BASED ON CURRENT STATISTICS IT

APPEARS THAT IMPORTS WILL BE APPROXIMATELY ONE BILLION BELOW THE PROJECTED LEVELS OF 6.6 OR 6.47 BILLION OR APPROXIMATELY 5.5 BILLION IN FFY 76/77 ON C AND F BASIS. WITH LARGE PROJECTS FROM TIME TO TIME CAUSING BIG FLUCTUATION IN IMPORT LEVELS AND WITH STATISTICS AS VARIABLE AS INDONESIAN IMPORT STATISTICS IT IS NOT APPROPRIATE TO USE LINEAR PROJECTION TECHNIQUE AS PER REFTTEL.

2. IMPROVEMENT IN THE BALANCE OF PAYMENTS REFLECTS PRIMARILY A SHARP INCREASE IN NON-OIL EXPORTS, PARTICULARLY TIMBER, AS BOTH PRICE AND DEMAND FIRMED UP ON THE STRENGTH OF RECOVERY IN THE ECONOMIES OF INDONESIA'S PRINCIPLE MARKETS, JAPAN AND THE U.S. NET OIL RECEIPTS ARE ALSO UP PARTLY BECAUSE OF INCREASED PRODUCTION BUT PRIMARILY BECAUSE THE GOVERNMENT NOW TAKES A GREATER SHARE OF OIL REVENUES AS THE RESULT OF A RENEGOTIATION OF PRODUCTION CONTRACTS WITH THE OIL COMPANIES. IMPORTS THROUGH THE FIRST SIX MONTH OF 1976 FELL BY NEARLY 20 PERCENT FROM THE PREVIOUS YEAR'S LEVEL. THE REDUCTION IN IMPORTS IS DUE LARGELY TO A SLOWING OF BUSINESS ACTIVITY, SOME CUT-BACKS IN THE GOVERNMENT'S DEVELOPMENT PROGRAM AND AN ANTI-SMUGGLING CAMPAIGN WHICH HAS MADE QUOTE ADMINISTRATIVE UNQUOTE SMUGGLING MORE DIFFICULT. IMPROVEMENT IN INDONESIA'S BALANCE OF TRADE IS REFLECTED IN ITS FOREIGN RESERVES POSITION. RESERVES FELL TO A LEVEL OF ABOUT \$400 MILLION IN SEPTEMBER 1975 IN THE MIDST OF THE PERTAMINA CRISIS. THEY HAVE SINCE CLIMBED SHARPLY AND IN MID-NOVEMBER 1976 NET RESERVES WERE ESTIMATED AT \$1.4 BILLION.

3. OVERALL BALANCE OF PAYMENTS SITUATION IS EXPECTED TO REMAIN FAVORABLE THROUGHOUT THE NEXT FEW YEARS EVEN THOUGH THE REDUCTION IN IMPORTS EXPERIENCED THIS YEAR IS LIKELY A SHORT TERM PHENOMENON. THE RESERVE LEVEL AT THE END OF FY 76/77 IS NOT LIKELY TO EXCEED NOVEMBER LEVEL OF \$1.4 BILLION SINCE INDONESIA WILL HAVE TO REFINANCE CERTAIN DEBT ISSUES, AND FINANCE ADDITIONAL IMPORTS OF FOOD TO COPE WITH DROUGHT-RELATED FOOD SHORTAGES BUT YEAR-END RESERVES LEVEL CAN BE EXPECTED TO EXCEED \$1 BILLION. FORECASTING BALANCE OF PAYMENTS LIMITED OFFICIAL USE

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FOR INDONESIAN ECONOMY IS ALWAYS VERY DIFFICULT AND PARTICULARLY SO AT THIS TIME IN VIEW OF MAJOR UNCERTAINTIES CONCERNING FUTURE OIL PRODUCTION LEVELS AND NET EARNINGS. HOWEVER, AT PRESENT WE HAVE NO STRONG REASONS TO DISAGREE WITH BANK INDONESIA STAFF PROJECTIONS OF BALANCE OF PAYMENTS OF INDONESIA WHICH ARE SAME AS KUHN, LOEB & CO. PROJECTIONS FOR FY 1976/77. ECONOMISTS AT BANK INDONESIA PROJECT AN OVERALL BALANCE OF PAYMENTS

SURPLUS OF 470 MILLION IN FY 76/77 RESULTING IN NET INTERNATIONAL RESERVES OF 1.03 BILLION. FOR THE YEARS 77/78, FY 78/79 AND FY 79/80, RESPECTIVELY, THEY HAVE PROJECTED OVERALL BALANCE OF PAYMENTS SURPLUSES OF 500 MILLION, 690 MILLION AND 600 MILLION RESULTING IN NEW RESERVE LEVELS OF 1.53 BILLION, 2.22 BILLION AND 2.82 BILLION. IBRD ECONOMIC MISSION NOW PREPARING AN ECONOMIC SUMMARY THAT WILL PROVIDE REVISED BALANCE OF PAYMENTS ESTIMATE IN NEAR FUTURE.

4. REFTEL PARA 4: IBRD VIEWS SIGNIFICANT REDUCTION OF EXTRA BUDGETARY FINANCING IN FY 76/77 TO APPROXIMATELY HALF THE LEVEL FOR FY 75/76 AS SIGNIFICANT IMPROVEMENT IN SITUATION. WHILE LEVEL IS LARGER THAN DEEMED DESIRABLE, IBRD IS NOT CALLING FOR MORE STRINGENT ACTION. IMF RESIDENT REPRESENTATIVE SLIGHTLY LESS OPTIMISTIC THAN IBRD BECAUSE LEVEL OF EXTRABUDGETARY FINANCING IS HIGHER AT THIS TIME OF YEAR THAN THE LEVEL THEY RECOMMENDED BUT IS NOT ALARMED BECAUSE HE SEES UNDERLYING JUSTIFICATION AND OFFSETTING REDUCTIONS IN THE FORM OF BUDGETARY RESTRAINT. IN THIS CONNECTION, BUDGET SURPLUS AT THIS TIME IS RUNNING AT AN ANNUAL RATE OF VERY NEARLY \$800 MILLION. OVERALL RECORDED YEAR-END SURPLUS MAY NOT BE SHOWN AT THIS LEVEL BECAUSE OF SOME RELAXATION OF SPENDING CONTROLS IN PRE-ELECTION PERIOD AND BECAUSE GOVERNMENT EXPECTED TO PAY BACK TO BANK INDONESIA SOME OF ITS INTERNAL BORROWINGS BEFORE CLOSE OF FY. THE UNDERLYING REASONS FOR THE EXISTING LEVEL ARE THE NEED TO CONTINUE CERTAIN INVESTMENT ACTIVITIES SUCH AS LNG AND KRAKATAU STEEL IN ORDER TO CONTINUE DEVELOPMENT OF SIGNIFICANT FUTURE FOREIGN EXCHANGE EARNING PROJECTS. ON THE WHOLE, BOTH IBRD AND IMF ARE NOT CONCERNED OVER EXISTING LEVELS OF DEFICIT FINANCING BUT WOULD LIMITED OFFICIAL USE

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LIKE TO SEE MORE PROGRESS IN REDUCING SUCH FINANCING IN THE IMMEDIATE FUTURE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGETS, BALANCE OF PAYMENTS, IMPORT DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 08 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART15918
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760454-1239
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761263/aaaaccda.tel
Line Count: 157
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 297724
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by ifshinsr>; APPROVED <22 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI'S BALANCE OF PAYMENTS AND EXTRABUDGETARY FINANCING
TAGS: ECON, EFIN, ID
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006